

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **March 28, 2006, Work Session**

AGENDA ITEM NO.: 6

CONSENT:

REGULAR: **X**

CLOSED SESSION:

(Confidential)

ACTION:

INFORMATION: **X**

ITEM TITLE: **Lynchburg Industrial Development Authority 2006 Business Development Policy**

RECOMMENDATION: None

SUMMARY: Mary Jane Russell will present a brief overview of and answer questions regarding the 2006 Business Development Policy. Copies have been distributed to City Council. A summary of past incentives and the impact on the City's tax base will also be given.

PRIOR ACTION(S): N/A

FISCAL IMPACT: N/A

CONTACT(S): Mary Jane Russell, 455-4493.

ATTACHMENT(S): 2006 Business Development Policy

REVIEWED BY: lkp



ENTERPRISE ZONE • TECHNOLOGY ZONE • INCENTIVES • INFRASTRUCTURE • BUILDINGS • LAND

LYNCHBURG INDUSTRIAL DEVELOPMENT AUTHORITY

and

OFFICE OF ECONOMIC DEVELOPMENT



2006 BUSINESS DEVELOPMENT POLICY

2006 BUSINESS DEVELOPMENT POLICY

BACKGROUND

The City of Lynchburg has an aggressive economic development program that is committed to creating jobs for its citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of business.

The City, through the Lynchburg Industrial Development Authority (LIDA), has a program of local economic development incentives designed to enhance the City's competitiveness for new industry and business and to support the expansion of existing basic employers. The performance-based incentives provide for, but are not limited to, cash grants, consideration of site cost reduction, site preparation costs, leased facilities, public infrastructure, and industrial revenue bonds. New and existing businesses must satisfy certain criteria for amounts of new taxable capital investment and/or increased full-time job equivalents to be entitled to locally funded incentives. The program is designed also to provide matching funds to State incentives.

The LIDA owns and manages two industrial parks. The Lynchburg Center for Industry is approximately 92% occupied with 13 acres of 170 total acres remaining for development; and the Lynchpin Industrial Center is approximately 42% occupied with 374 acres of 649 total acres remaining for development. The City, in partnership with Campbell County, is also developing the Airport Commerce Park with 252 total acres adjacent to Lynchburg Regional Airport.

The City also provides support to the Business Development Centre, Inc., which was established to help small start-up businesses with one-stop support services. The Centre provides counseling, advising and training services as well as office or industrial space at the facility. Additionally, there are loan programs administered by the Centre that are available to finance eligible small businesses.

The City understands the importance of creating an environment that is business friendly and is working hard to improve services to the business community while continually searching for innovative ways to assist businesses.

The Virginia Enterprise Zone Program administered locally by OED offers special state and local incentives to businesses and is designed to encourage job creation and investment within designated zones. Lynchburg has two Enterprise zones—Downtown, renewed in 2004 and Lynchpin established in 1996.

In March 2002, Lynchburg City Council approved a Technology Zone Ordinance. The Commonwealth of Virginia allows cities, counties and towns to establish, by ordinance, one or more technology zones to attract growth in targeted industries. Qualified businesses locating or expanding in such a zone may receive local permit and user fee waivers and local tax incentives. The City established two technology zones—Downtown and Lynchpin.

The City continues to market for new businesses, particularly in the downtown and industrial parks which are designated as Enterprise Zones and Technology Zones. Numerous business owners have taken advantage of the benefits of these zones. The Enterprise and Technology Zones overlap, allowing qualifying businesses the choice of which program to apply for in the City's designated development areas.

Retail development continues to expand in the Route 29 (Wards Road) corridor, which remains the regional retail and restaurant hub serving Lynchburg and the four surrounding counties. Target, Best Buy, Barnes and Noble, Wal-Mart, and Sam's Club are the anchor stores in the corridor, driving the addition of approximately five new businesses annually including national chain stores and restaurants.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government, and community leaders of the City and surrounding jurisdictions continue to participate in regional activities. The Region 2000 Partnership is an umbrella organization that includes the Local Government Council, the Economic Development Council, the Technology Council, and the Workforce Investment Board

and Career Center. Supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis, the Region 2000 Partnership will continue to combine public and private sector interests to support ongoing local, state, national, and international programs in central Virginia.

OFFICE OF ECONOMIC DEVELOPMENT

The City's Office of Economic Development (OED) was established in 1983 to provide core services for the economic development program and to serve as staff to the LIDA. City Council has supported the LIDA by annual appropriations of funds to be used as incentives and OED with capital improvement funds for infrastructure construction. The LIDA has financed, constructed, and currently leases buildings at 301 5th Street (Civic Development Group), 109 Ramsey Place (Simplimatic), 28 Millrace Drive (AMTI), and 1501 Graves Mill Road (Bausch and Lomb). It is OED's responsibility to:

- Establish strong relationships with the City's existing businesses
- Administer the LIDA incentive program
- Calculate and monitor LIDA's return on investment (ROI) for incentives awarded and assets invested
- Develop LIDA-owned infrastructure and land mass
- Respond to site selection requests working directly with the State and consultants
- Identify rehabilitation projects
- Recruit new businesses based on targeted market segments and existing business needs
- Market Lynchburg as a place to visit, live, and locate a business
- Forge partnerships to respond to business needs by identifying organizations with common interests and defining shared roles
- Participate in regional activities
- Facilitate the use of Enterprise Zone, Technology Zone, and Historically Underutilized Business (HUB) Zone programs

- Coordinate State and Federal programs to benefit local businesses
- Establish an Economic Development Advisory Council to maintain dialogue with key business leaders
- Review and update the Business Development Policy annually for LIDA endorsement

BASIS FOR INCENTIVES

Incentives may be offered, as directed by the LIDA, to existing and new businesses based on:

- The amount of new, taxable capital investment (ROI in 3-5 years)
- The number of new jobs
- Maintaining existing jobs
- The average salary of new jobs
- The financial strength of the company
- Location competition
- Match to State incentives

CITY OF LYNCHBURG INCENTIVES ADOPTED IN 1994

As established in 1994, for qualifying industries (industries which manufacture a product from two or more materials):

- Cash—typically from 2% to 5% of eligible capital investment (i.e. additional real property or equipment that adds to the tax base) once \$750,000 threshold is met
- Land in LIDA industrial parks
- Site preparation
- Build-to-lease or build-to-own facility
- Waiver of sewer and water availability fees to qualifying industry
- Public infrastructure improvements in privately owned industrial parks and sites based on 8% of the eligible capital investment

- Enterprise Zone (or Technology Zone) benefits
- Tax exempt industrial revenue bonds
- Elimination or reduction of local machinery and tools tax for State certified pollution control and recycling equipment

CITY OF LYNCHBURG INCENTIVES ADOPTED IN 2006

All incentives are subject to LIDA approval, modification, and availability of funds.

1. Cash grant to qualifying industry—generally up to 1% of eligible capital investment if less than \$750,000; generally up to 2% of eligible capital investment if greater than \$750,000 and if machinery and tools and real estate taxes generate ROI over five year period.
2. Cash grant to service or technology business—generally up to 1% of eligible capital investment if greater than \$750,000 and if business personal property, business license, and real estate taxes generate ROI over five year period.
3. Cash grant to qualifying industry, service or technology business—generally up to 2% of the increase to the annual payroll for full time employees with health benefits if base employment is increased by more than one-third netting a minimum of thirty new FTEs in one year, subject to payroll audit and performance agreement.
4. Fast Track Designation for projects determined to be time critical. City staff will review a fast track designated project's 100% complete site plan and building plans and provide written comments within ten working days. Approval will be based on one set of review comments.
5. OED may approach City Council on a case-by-case basis for reimbursement of substantial incentives, based on sharing of annual increase to the tax base.
6. OED may approach City Council on a case-by-case basis for retail incentives not involving LIDA funds as warranted by the amount of taxable capital investment, projected gross receipts, and location competition.

7. Interest earned on LIDA funds may be used as a venture capital fund for small businesses that satisfy the requirements of the 2006 Technology Zone Guidelines. \$5,000 maximum grants for research or product development.
8. Office space in the Bank of the James 10th Floor Technology Center may be provided as available to a business that satisfies the requirements of the 2006 Technology Zone Guidelines, or associated service.
9. Small Business Innovation Research (SBIR)/Small business Technology Transfer (STTR) application assistance for grant proposals to Defense Advanced Research Projects Agency (DARPA). A \$500 grant may be awarded to a business that satisfies the requirements of the 2006 Technology Zone Guidelines.
10. A broker who successfully recruits a company that meets the requirements of the 2006 Technology Zone Guidelines may be eligible for the reimbursement of documented expenses such as but not limited to travel, meals, or lodging subject to the availability of funds.
11. Qualification for cash grants is based on OED review of actual paid receipts. A certification of paid invoices by a certified public accountant may be required from the recipient for investment verification.

INCENTIVES PROVIDED BY COMMONWEALTH OF VIRGINIA

Reference is made to the Virginia Economic Development Partnership Guidelines for Business Incentives, current edition.

- Corporate Income Tax Incentives—Major Business Facility Job Tax Credit, Recycling Equipment Tax Credit, Day Care Facility Investment Credit, Worker Retraining Tax Credit
- Property Tax Incentives
- Sales and Use Tax Exemptions
- Enterprise Zones
- Technology Zones

- Workforce Services Training—New Jobs Program, Small Business New Jobs Program, Retraining Program
- Workforce Investment Act
- Industrial Access Road Program
- Rail Industrial Access Program
- Foreign Trade Zones
- Industrial Development Bonds
- Community Development Block Grants
- Governor's Opportunity Fund (GOF)
- Virginia Investment Partnership Grant Fund (VIP)
- Virginia Small Business Financing Authority
- Solar Photovoltaic Manufacturing Grants
- Virginia's Center for Innovative Technology
- Global Market Research Program
- VALET: Virginia Leaders in Export Trade
- VSBDC: Virginia's Small Business Development Center Network

2006 TECHNOLOGY ZONE GUIDELINES

DEFINITION

Technology business means a business which derives its gross receipts from the design, development or other creation, for lease, sale or license of technology based products, processes or related services.

Technology based products, processes or related services are defined as engaging in the activity of automation, biotechnology, biomedical research, chemicals, design, electronics, computer hardware, computer software, defense, homeland security, energy, environmental, manufacturing equipment, advanced materials, medical applications, pharmaceuticals, photonics,

electronic based subassemblies and components, testing and measurements, telecommunications, systems integration, multimedia, e-commerce, and internet services.

The definition of technology business can also be extended to training in the above concentration areas.

Technology developers, rather than simply technology users, shall be considered as qualified zone businesses. In no case shall the use of computers or telecommunications services by a business in its internal operations qualify the business as a technology business.

INCENTIVES

Reduction and/or Waiver of City Fees

Includes fees for building permits, mechanical and gas permits, plumbing permits, electrical permits, sign permits, conditional use permits, and zoning ordinance fees. The fees identified will only be exempt if the qualified zone resident can demonstrate that 100% of the cost of expansion, rehabilitation, or new construction is to house or accommodate a qualified technology business.

Reduction in Taxes

Business License Fees (BPOL)—A five-year reimbursement of BPOL to qualified technology businesses in an amount equal to 100% for the first three years and 50% during the remaining two years.

Machinery and Tools Tax (M&T)—A five-year reimbursement of M&T to qualified technology businesses in an amount equal to 100% for the first three years and 50% during the remaining two years.

Small Business Innovation Research (SBIR)/Small Business Technology Transfer (STTR)—A \$500 grant to underwrite the cost of an application consultant for SBIR/STTR projects to qualified technology businesses.

Venture Capital Fund—Based upon the LIDA's available interest revenue, a \$5,000 grant to pursue research and development projects by qualified technology businesses.

Bank of the James 10th Floor Technology Center—Use of office space for a period of six months, renewable at below market cost, based upon availability and meeting the requirements of a qualified technology business, or associated service. Includes only office space and related electricity, hvac, and janitorial services—floor will be a wireless hotspot. Modifications to any of the offices shall be at the tenant's expense and as approved by the lessee and owner.

BOUNDARIES

Zone 1, known as the Downtown Technology Zone, includes the Central Business District, Lower Basin, the Fifth Street Corridor, surrounding neighborhoods, as well as the land zoned industrial between Carroll and Campbell Avenue (refer to Enterprise Zone map).

Zone 2, known as Lynchpin Technology Zone, is located between Wiggington Road and Lakeside Drive on the City's western boundary, and shall also include as a subzone the Business Development Centre located at 147 Mill Ridge Road.

MINIMUM INVESTMENT

In the Downtown Technology Zone, a minimum capital investment of \$10,000 is required.

In the Lynchpin Technology Zone, a minimum capital investment of \$250,000 is required.

MINIMUM EMPLOYMENT

Expanding Technology Business

Increase the number of full-time employees by 10% over a base year, or the increase must constitute at least 2 net new full-time employees, whichever is greater.

New Technology Business

In the Downtown Technology Zone, create a minimum of 2 new full-time jobs within 1 year of the firm's application.

In the Lynchpin Technology Zone, create a minimum of 15 new full-time jobs within 1 year of the firm's application.

Wages paid to the minimum threshold number of full-time employees needed to qualify must be equal to twice the federal minimum wage rate, and provide health benefits.

PROCEDURE

OED will qualify the company as set forth by the criteria established in the policy.

A company's appropriateness for the use of the program's incentives can be predetermined through a letter of understanding if requested by the company.

A business seeking to obtain a reduction of taxes under this section shall have the burden of demonstrating, to the satisfaction of the Director of Economic Development, that it meets the definition of a technology business and that it meets all applicable criteria for a reduction.

Except as otherwise specifically provided, nothing set forth within this section shall affect a technology business's status or classification for tax purposes, its obligation to report gross receipts and to file tax returns, or to pay any license issuance fees or local taxes under this program.

Businesses locating in a Technology Zone must apply to OED in order to receive program benefits. It is still necessary for the business to file all necessary tax applications and pay the taxes when billed in order to receive certification from the Director. The incentives given through the participation in this program will be in the form of reimbursements to the business. The application shall be made by the business within the first 12 months of operation within the Zone and the Director shall investigate and determine that the business is a qualified technology business. It will further be required that the business reapply for the program incentives every year that it is within the program. This will ensure that the business has maintained its investment and job creation requirements and will also verify its status as a technology business. An audit of the submitted information will be conducted by OED for compliance and will be

forwarded to the Commissioner of Revenue's office for any tax related issues. Upon certification by the Director and proof that no taxes are outstanding at the time of the application, the business will receive the program benefits from the date of original residency within the Zone.

If a business ceases to be a qualified technology business, ceases to meet the minimum criteria, or removes its operation from the City of Lynchburg during a year in which the reimbursement applies, the reimbursement shall not be available.

A business firm may qualify for one additional five-year incentive period provided the necessary additional job creation and investment criteria are met as a result of an expansion. A qualified business firm cannot receive benefits under this program for a period longer than ten years.

Any requested waiver of the criteria or procedures contained in this ordinance must be approved by the LIDA.

ENTERPRISE ZONE BENEFITS

Zone 1 – Downtown, 5th & 12th Streets

Zone 2 – Lynchpin Industrial Center

STATE BENEFITS

Job Creation Grants (350 max. per year):

- Four FTE threshold (grant begins with fifth FTE)
- Not available to retail, local service, or food/beverage service
- 200% of fed. min. wage = \$800/yr for five years
- 175% to 200% of fed. min. wage = \$500/yr for five years
(Required % of min. wage with health benefits)

Real Property Improvement Grants:

- \$50,000 threshold for rehab or expansion of existing building
- \$250,000 threshold for new construction
- <\$2m, 30% of cost eligible, not to exceed \$125,000 in five years
- >\$2m, 30% of cost eligible, not to exceed \$250,000 in five years
- 30% usable floor space as commercial, industrial, or office

All applications completed and signed by CPA.
State grants subject to availability of funds.

LOCAL BENEFITS

Must first qualify for State Job Creation Grants to be eligible for BPOL and M&T refunds

- Business & Professional License (BPOL)—refund of 100%, Years 1-3; 50%, Years 4-5—based on gross receipts
- Machinery & Tools Tax—refund of 100%, Years 1-3; 50% Years 4-5
- Loan Pool—prime – 0.5%, no points; \$15,000 minimum loan
- Real Estate Tax Freeze—City Assessor's program for entire city
- Downtown Façade Improvement—City Community Planning & Development's program (subject to availability of local funds)

